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RISK EVALUATION AND LOAN PERFORMANCE IN MICROFINANCE BANKS IN AMUWO-ODOFIN LOCAL GOVERNMENT AREA OF LAGOS STATE.

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ABSTRACT

The primary function of microfinance banks in any economy is to advance loans to qualifying entrepreneurs. Such loans are expected to be repaid as and when due and in accordance with laid down agreements with the clients. It has however been observed that a greater number of such loans become bad or doubtful as the beneficiaries of such credits always default on their repayment obligations. This study focuses on modalities for loans performance and the credit management style of microfinance banks in Amuwo-Odofin Local Government Area of Lagos State, Nigeria. Survey research design was adopted for this study. Stratified random sampling technique was used. A sample size of two hundred respondents was drawn from the selected banks. Data was analyzed using regression and the Statistical Package for Social Sciences (SPSS). From the analyses, it was observed that there is a significant relationship between credit risk evaluation and loan performance in selected microfinance banks in Nigeria. The study therefore recommended that microfinance banks in Nigeria should strictly employ the appraisal process in respect of their loan portfolios and adhere to it without compromise when evaluating credit risks in their organizations.

***Key Words**:* Microfinance, business, credit, financial, appraisal, banks.

INTRODUCTION

The ability of microfinance banks to recover in full their loan portfolios at any given time has always posed some financial problems to the banks. It has been realized that a number of the banks' clients do not honour their debt obligations with the banks as and when due. The banks are therefore faced with this terrible scenario of not being able to recover their loans in full. This seeming inability to fully recover their loan portfolios negates the banks' profitability portfolios.

Agene (2011) posits that credit risk portfolios may be regarded as deteriorations in the quality of loan portfolios of a bank. Such deterioration would consequently increase the losses of the affected banks. Williams (2004) further reiterates that credit risk connotes the loss in contractual obligations with respect to the cash flows of an organisation. Sustainability and survival therefore becomes the watchwords for microfinance banks in relation to their loan portfolios. Such can only be achieved through strong and sustainable credit administration characterised by adequate backup plans.

Badly managed loan portfolios would always result into bad debts (Eferakeya, 2014). This would invariably result into banks distress. Bad loan portfolios could be traced to reckless lending strategies and poor management styles of the banks, Bridge (1998). It is important for microfinance banks in Nigeria to adopt strategies which would not run counter to their management's strategic plans. Another problem arising from bad credit management is insider lending and connivance. Here, the bank officials compromise the lending ethics of the banks and do not apply the laid down rules sufficiently enough to guarantee perfect loan monitoring and performance.

According to Munene and Guyo, (2013) this misconduct is not only limited to commercial banks but is also prevalent in Microfinance banks. This has led to the liquidation of many Microfinance banks in the country. In general terms, it can be seen that poor credit management in microfinance banks brings about massive bank liquidation in the economy. It is also evident that the products offered by various microfinance banks determine the level of risks inherent in such banks. Such products may include short and long term loans, letters of credits, bank guarantees as well as other financial products offered by banks. In spite of all the risks, loans, however, still constitute a greater proportion of credit risks (Kitua, 1996) as they generally account for a greater percentage of the banks' equities. Microfinance credit risk management portfolio constitutes a critical component of a comprehensive approach to risk management in the banking sector in Nigeria (Arora and Kumar, 2014).

A key necessity (Nkusu, 2011) for viable credit risk management should be the capacity to oversee the robust harmonization of client credit lines in accordance with the agreements entered into with the banks' clients. Moti, Masinde, Mugenda and Sindani (2012) reiterate that credit management for bank loans do not cease until the full and last instalment of the loans have been fully recovered. Though a lot of researches have been carried out on credit risk management by various researchers, it is still clear that a lot of gaps still exist on the subject. Such gap has been identified in Amuwo-Odofin Local Government area of Lagos State.

According to Armendariz de Aghion and Morduch, (2005), wrong selection of credit customers may occur when the bank has insufficient information to make a distinction between good and bad customers. Mersland and Strom (2007) concluded that such knowledge is particularly important for microfinance banks, whose customers frequently do not possess long historical backgrounds about their businesses. They further observed that most microfinance loans are given without any or adequate collaterals. In such situations, recovery of such loans may become doubtful if not fully irrecoverable. This will have negative impact on the profitability of such microfinance banks.

The main objective of this study is to examine the effect of credit risk management and on the performance of loans in microfinance banks in Amuwo-Odofin Local Government Area of Lagos State. The study will assist the management of the banks to come up with the spectrum of factors that will determine the risks in the Microfinance industry and also to provide pragmatic ways to reducing them. The study shall provide a robust insight into the management of the credits of microfinance banks. The study shall also endavour to highlight the appropriate ways of controlling credits in microfinance banks. This is with a view to reducing or eradicating loan repayment failures in microfinance banks in Nigeria.

Research Hypothesis

This null hypothesis was tested:

H_{01}: Credit risk evaluation has no significant effect on loan performance in microfinance banks in Amuwo-Odofin Local Government Area of Lagos State.

LITERATURE REVIEW

Conceptual framework

Historically, microfinance were created as a means of providing a broad range of financial services such as loans, savings, payment services, transfer of money and insurance to entrepreneurs and small businesses, households and individuals who may not be conveniently exposed to the services of the regular banks in Nigeria. Their services are complimentary to those of commercial banks in Nigeria.

Microfinance (Chijoriga, 2011) accepts deposits and lends out same to qualifying clients for various business ventures on a day to day basis for the benefit of their clients and for the banks' profitability. Karlan and Goldberg (2007) describe microfinance banks as financial institutions which provide loans and credits to Small and Medium Enterprises who may not be able to access such credits easily with the regular banks.

Fernado (2008) and Gatimu and Fredrick (2010) consider microfinance banks as financial institutions which provide financial services to the poor and low-income earners in the society. Such assertions were also corroborated by Muneme and Guyo (2013) that microfinance banks exist principally for the satisfaction of the financial needs of the low and middle income business enterprises.

Risks associated with microfinance banks

The inability of banks to identify risks has been one of the major setbacks in the control and management of credit risks in microfinance banks in Nigeria. It is important that each microfinance bank identifies the credit risks inherent in its clientele. In addition, they should also be able to manage such loans and the attendant risks associated with them. According to Adamu, Asongo, and Nyor (2014), three categories of risks can be identified in relation to microfinance banks:

a) **Market Risks** are risks which by their nature are environmental (Fernando, 2008). They include risks for financial losses which may arise as a result of changes in interest rates, fluctuations in foreign exchange rates or mismatch in the management of long term assets and associated liabilities.

b) **Liquidity Risks** arises where a microfinance bank is unable to meet its cash requirements or payments obligations timely and in cost-efficient manner (Craig and Dan, 2011). For proper management of microfinance credits, microfinance banks should be able to plan and adequately match available funds against the withdrawal patterns of their customers to avoid unnecessary liquidity crisis which lead into bank runs.

c) **Operational Risks** arises as a result of possible systems or human errors in service or product delivery. Such risks always involve huge financial and human resources (Mersland and Strom, 2007).

Management of Credit Risks

Credit risk management involves the application of scientific frameworks which are used as guidelines for the monitoring of a bank's credit portfolio (Rose, Westerfield and Jordan, 2008). Credit risk management ensures that regulated frameworks are adopted by the lenders to ensure effectiveness and efficiency in guiding against loan repayment defaults.

Credit risk management (Nikolaidov and Vogiazas, 2014) connotes the controlling and monitoring of risks involved in the day to day running of financial institutions (such as microfinance banks) for the purposes of reducing and or eliminating such risks. It is noteworthy to observe that when credit risks are properly managed, the chances of reducing or completely eliminating the negative outcome of such risks are possible.

On the other hand, Fernando (2008) defined management of risk as the identification, limitation, measurement and monitoring of risks which occur in the financial sector. Such risks can be monitored and controlled through risk drivers which are aimed at regulating and ameliorating the inherent risks. Through such mechanisms, microfinance banks can greatly reduce the incidence of bad and doubtful debts in their organizations.

However, Frank, Simon and Josephine (2014) noted that risk management considerations are not absolutely the panacea to the complete elimination of risks arising from banks' lending obligations. They posited that such measures (as earlier suggested) are generally relevant and necessary for the control of risks in order to reduce the inherent hazards of such risks on the lenders.

THEORETICAL FRAMEWORK

To further discuss the relationship between credit risk management and loan performance in microfinance banks, the under-listed theories were cited:

Liquidity Preference Theory

The Liquidity Preference Theory postulates that the demand for credits is paramount to entrepreneurs who prefer to be liquid in order for them to meet their business financial demands. Notwithstanding the interest rate, borrowers of money will prefer to pay such interests and have access to liquidity, as it were, to enable them fulfil their business motives, which is the maximisation of their returns on investment. The theory further explains that the supply and demand for money is largely influenced by interest rates mechanism. Such demands for money could be categorized into three basic motives, namely - transactionary, precautionary and speculative. Therefore when an enterprise is financially constrained, it looks up to (microfinance) banks for liquidity succour in the form of credits or loans.

Credit Risk Theory

Credit Risk Theory focuses on the risk encountered by financial institutions as a result of the inability of borrowers to repay their debt obligations as and when due. Credit risk arises where the financial institution partially or totally losses both interest and or principal from the borrower. The negative effect of this is that the bank's cash flow will be grossly undermined and illiquidity will threaten the very existence of the (microfinance) bank.

As a precautionary measure, financial institutions are urged to adequately evaluate the risk profiles of their customers with a view to determining the credibility or otherwise of such credit customers.

It will be expedient for the financial institution to structure and package credit obligations or requirements to be certified by their clients on a one-to-one basis. This will enable the bank to rank the credit worthiness of their customers and perhaps charge interest and other processing fees in accordance with the credibility of the borrower to meet all loan repayment obligations as required by the lender. Such discriminatory charges will enable the bank to caution the negative effects of credit unworthiness.

Risk Adjusted Return on Capital

According to Saunders and Cornett (2007) the **Risk Adjusted Return on Capital** model is a risk-based profitability measurement framework which stipulates that financial performance of organizations should undergo an analysis of their risks when adjusted against their financial performances. This will enable financial institutions to have a realistic platform of assessing the profitability of their clients in line with their financial performances. The model can be used by banks to ration credits (capital) to their customers based on their value added profiles.

Empirical Review

Mwirigi and Kwagara (2006) established from their study that credit risk management techniques adopted by microfinance institutions in Kenya with regular assessments and analyses of credit risks had significant influence on the loan performance of the selected microfinance banks.

It was also argued by Al-Tamimi and Al-Mazrooei (2007) that a bank's efficiency analysis and risk assessment will make the bank to perform better since the loan risk profile of such banks will be low.

In a study of the impact of credit risk management of financial institutions in commercial banks in Nepal, Poudel (2012) asserted that credit risk management is an important determinant of a bank's financial performance. He argued that the success of any bank's performance depends on a successful management of its credit risk portfolio. Thisika and Muturi (2017) in their work on credit management risk and loan performance in Kenya argued that credit appraisal has a positive and strong relationship with non-performing loans after considering that good credit appraisal lowers the rate of nonperforming loans.

The foregoing positions were further confirmed by a study carried out by Murugi and Thuo, (2018) on credit management risk and loan performance in microfinance banks in Kenya. Their study concluded that the credit environment, credit appraisal processes, credit administration, credit measurement and monitoring as well as internal controls over credit risks play very important roles in analyzing the loan performance of microfinance banks in Kenya.

Though several studies have been carried out in Nigeria with respect to credit risk management in microfinance banks, its relevance to loan performance in microfinance banks in Amuwo-Odofin Local Government Area of Lagos State has not yet been clearly established. This study also provides a model that depicts the relationship between credit risk management and loan performance in microfinance banks in Amuwo-Odofin Local Government Area.

METHODOLOGY

Research design

The study used survey research design. It was necessary to use survey research survey research design because the instruments for measurement of variables employed the use of questionnaires and observations.

Population

The population of the study comprised of the management cadre of the four microfinance banks in Amuwo-Odofin local government area of Lagos State as at the date of this report. The management comprised of the high, medium and low level categories of staff of the selected banks.

Sampling size

The purposive sampling technique was adopted for the determination of the sample size for analysing the variables. Purposive sampling technique was adopted in the selection of the sample size 200 respondents in order to enable the researcher deal capture the segment of the bank workers who deal with the banks' credit customers. The selection of the sample size was based on Table 1 below:

Table 1: **Selected Banks staff**

Microfinance Bank	Estimated number of Managers			
	Top Management	Middle Management	Low Management	TOTAL
Accion Microfinance, Festac	10	20	40	70
Meridian Microfinance, Old Ojo Road.	5	5	20	30
Cowries Microfinance, Festac	8	10	32	50
Lapo Microfinance, Old Ojo Road	8	7	35	50
Grand Total	**31**	**42**	**127**	**200**

Source: Researcher's Output, 2019

Operationalisation

X = Independent Variable (Credit Risk Management)

Y= Dependent Variable (Loan Performance)

$Y = f(X)$

$X = x_1$

Where:

x_1 = credit risk evaluation

$Y = f(x_1)$ ------------------ H_{01}

Table 2: Mean and Standard Deviation Statistics of Credit Risk Evaluation

Descriptive Statistics							
	N	Mean	Std. Dev.	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Microfinance banks should carry out proper cash-flow analysis for the determination of borrowers' credit worthiness.	184	4.8587	.34929	-2.076	.179	2.337	.356
Quality group cross guarantees should be used in place of ordinary collaterals as cushion against loan defaults.	184	4.8152	.48877	-2.678	.179	6.349	.356
Regular checks on the financial status of clients should be carried out by Microfinance banks to ameliorate bad debts.	184	4.8587	.34929	-2.076	.179	2.337	.356
Borrowers can use their stocks and insurance certificates as collaterals for their loans.	184	4.6630	.55863	-1.814	.179	4.348	.356
Requirements for loan approvals should be led out according to the size of the loan.	184	4.5978	.76907	-2.665	.179	8.751	.356
Use of high net individuals should for loan guarantees should be encouraged.	184	4.0978	.95882	-1.551	.179	2.517	.356
Regular viability checks should be carried out to ensure positive performance.	184	4.6630	.64912	-1.960	.179	3.322	.356
Valid N (listwise)	184						

Source: Researcher's Output, 2019

Table 3: Descriptive analysis of responses on Credit Risk Evaluation

Strongly Agree (SA) =5, Agree (A) =4, Undecided (U) =3, Disagree (D)=2 and Strongly Disagree (SD)=1

VIEW	SA	A	U	D	SD
Microfinance banks should carry out proper cash - flow analysis for the determination of borrowers' credit worthiness.	100 (54.3)	26 (14.1)	28 (15.2)	20 (10.9)	10 (5.4)
Quality group cross guarantees should be used in place of ordinary collaterals as cushion against loan defaults.	158 (85.9)	18 (9.8)	8 (4.3)	0	0
Regular checks on the financial status of clients should be carried out by Microfinance banks to ameliorate bad debts.	36 (19.6)	118 (64.1)	10 (5.4)	15 (8.2)	5 (2.7)
Borrowers can use their stocks and insurance certificates as collaterals for their loans.	52 (28.3)	128 (69.6)	2 (1.1)	2 (1.1)	0
Requirements for loan approvals should be led out according to the size of the loan.	42 (22.8)	130 (70.7)	8 (4.3)	4 (2.2)	0
Use of high net individuals should for loan guarantees should be encouraged.	64 (34.8)	98 (53.3)	4 (2.2)	12 (6.5)	6 (3.3)
Regular viability checks should be carried out to ensure positive performance.	32 (17.4)	138 (75.0)	12 (6.5)	2 (1.1)	0

Source: Researcher's Output, 2019

The detail assessment of respondents' views on credit risk evaluation is depicted in Table 3. The credit risk evaluation was tested using 5-point Likert scale.

In order to find out if quality cash-flow analysis should be carried out by banks to determine the status and capability of a borrower before loans are granted, 54.3% of respondents strongly agreed that quality cash-flow analysis should be carried out by banks, 14.1% agreed that quality cash-flow analysis should be carried out by banks, 15.2% of the respondents were indifferent about the statement, 10.9% disagreed while 5.4 strongly disagreed with the statement.

On whether quality collateral/collateral substitute such as group cross guarantee should be collected by microfinance banks as cushion for loan size to minimize risk and sustain the survival of the bank, 85.9% of respondents strongly agreed, 9.8% agreed with the statement while 4.3% of the respondents were indifferent about the statement.

In order to find out if the banks should ensure that micro borrowers keep record of their business transactions by effective monitoring and constantly checking their records by visitation, 19.6% of respondents strongly agreed that banks should ensure that micro borrowers keep record of their business transactions by effective monitoring and constantly checking their records by visitation, 64.1% agreed, 8.2% disagreed while 2.7% had strong conflicting view about the statement.

To find out if stocks hypothecation and borrowers insurance should be used as collateral substitute, 28.3% of respondents strongly agreed that stocks hypothecation and borrowers insurance should be used as collateral substitute, 69.6%, 1.1% of the respondents were indifferent about the statement while 1.1% disagreed that stocks hypothecation and borrowers insurance should be used as collateral substitute. To know if loan size should be structured to simultaneously meet the borrowing needs of the customer and the lending requirements of the microfinance banks for survival, 22.8% of respondents strongly agreed, 70.7% agreed, 4.3% of the respondents were indifferent while 2.2% disagreed. To find out if two or more guarantors who are notable public people should be obtained to secure loans in order to reduce repayment challenges among microfinance banks customers, 34.8% of respondents strongly agreed that two or more guarantors who are notable public people should be obtained to secure loans in order to reduce repayment challenges among MFBs customers, 53.3% agreed, 2.2% of the respondents were indifferent while 9.8% had contrary view about the statement. To find out if efficient analysis of project viability is needed, 17.4% of respondents strongly agreed that efficient analysis of project viability is needed, 75.0% agreed that efficient analysis of project viability is needed, 6.5% of the respondents were indifferent about the statement while 1.1% had opposing view about the statement.

Table 4: Descriptive Analysis of Responses on Loan Performance
Strongly Agree (SA) =5, Agree (A) =4, Undecided (U) =3, Disagree (D) =2 and Strongly Disagree (SD) =1.

VIEW	SA	A	U	D	SD
Loans should not be approved where there are proves of insider abuse.	24 (13.0)	160 (87.0)	0	0	0
Only trained and reliable loan officers should be responsible for loan appraisals and approvals.	28 (15.2)	106 (57.6)	20 (10.9)	20 (10.9)	10(5.4)
Reliable and relevant appraisal techniques should be employed especially where loan portfolios may need restructuring.	26 (14.1)	156 (84.8)	2 (1.1)	0	e0
Loans should be adequately monitored in order to effectively reduce loan default rates.	32 (17.4)	142 (77.2)	4 (2.2)	6 (3.3)	0
Loan officers should ensure that all necessary legal documentations have been perfected.	18 (9.8)	160 (86.9)	2 (1.1)	4 (2.2)	0
Microfinance banks should employ the use of cash flow analysis to monitor clients' loan repayment schedules	26 (14.1)	100 (83.7)	24 (13.0)	30 (16.3)	4 (2.2)

Source: Researcher's Output, 2019

Respondents' views on loan performance are depicted in Table 4. The loan performance was tested using Likert's 5-step measurement scale. The rationale behind this was to examine the respondents' opinion and the extent to which they agree to the specific items for the measurement of loan performance.

To find out whether insider abuse (situations where loan officers and members of management of a microfinance banks grant loans not in accordance with the approved procedures resulting to loan default) should be discouraged, 13.0% of the respondents strongly agreed. While 87.0% simply agreed.

On whether microfinance banks should employ competent loan officers and train them to acquire competence, 15.2% of respondents strongly agreed, while 57.6% agreed with the statement, 10.9% of the respondents were indifferent about the statement, 10.9 disagreed with the statement while 15.4% strongly disagreed.

On whether good appraisal and restructuring of the needs of borrowers and bankers may lead to better performance of loans, 14.1% of respondents strongly agreed while 84.8% agreed and 1.1% of the respondents were indifferent. The researcher was also interested in finding out if microfinance banks should adopt cost-effective means of monitoring loan utilization and performances achieved by the borrower, 17.4% of respondents strongly agreed while 77.2% agreed with the statement. But 2.2% of the respondents were indifferent while 3.3% had opposing view regarding the statement.

In order to find out if loans officers should ensure that credit facilities are not disbursed without putting proper documentation in place, or perfecting legal charge over collateral security, 9.8% of respondents strongly agreed that loans officers should ensure that credit facilities are not disbursed without putting proper documentation in place, or perfecting legal charge over collateral security, 86.9% agreed with the statement, 1.1% of the respondents were indifferent about the statement while 2.2 disagreed with the statement. In an attempt to find out if analysis of cash-flow projections for loan repayment should continue to be emphasized in self-liquidating and asset-based transactions, 14.1% of respondents strongly agreed that analysis of cash-flow projections for loan repayment should continue to be emphasized in self-liquidating and asset-based transactions, 83.7% greed with the statement, 13.0% of the respondents were indifferent about the statement, 16.3 disagreed with the statement while 2.2% strongly disagreed that analysis of cash-flow projections for loan repayment should continue to be emphasized in self-liquidating and asset-based transactions.

Table 5: Mean and Standard Deviation Statistics of Loan Performance

Descriptive Statistics							
	N	Mean	Std. Dev.	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Loans should not be approved where there are proves of insider abuse.	184	4.8696	.33770	-2.213	.179	2.928	.356
Only trained and reliable loan officers should be responsible for loan appraisals and approvals.	184	4.8370	.39883	-2.348	.179	4.904	.356
Reliable and relevant appraisal tec hniques should be employed especially where loan portfolios may need restructuring.	184	4.8370	.39883	-2.348	.179	4.904	.356
Loans should be adequately monitored in order to effectively reduce loan default rates.	184	4.6848	.67637	-2.519	.179	6.458	.356
Loan officers should ensure that all necessary legal documentations have been perfected.	184	4.8804	.35735	-3.063	.179	9.365	.356
Microfinance banks should employ the use of cash flow analysis to monitor clients' loan repayment schedules.	184	4.8152	.44179	-2.373	.179	5.116	.356
Valid N (listwise)	184						

Source: Researcher's Output, 2019

To determine the respondents' position with regard to the measurement of loan performance in the research instrument, the mean scores after merging the respondents' responses which fall between 0 and 2.4, on the average, indicated that loan performance was insignificant, however, where it falls between 2.5 and 4.4, it showed that loan performance was moderate. However, where it falls between 4.5 and 5 it indicated that loan performance were high.

The respondents' opinion on insider abuse was statistically significant with the mean of 4.8696 and standard deviation of .33770. On the average, most of the respondents approved that procedures resulting to loan default should be discouraged. On whether microfinance banks should employ competent loan officers and train them to acquire competence to curb loan default it was statistically significant with mean score of 4.8370 and standard deviation of .39883. On the average, most of the respondents were of the opinion that microfinance banks should employ competent loan officers and train them to acquire competence.

On whether good appraisal and restructuring of the needs of borrowers and bankers may lead to better performance loans, the responses were statistically significant with mean score of 4.8370 and standard deviation of .39883. On the average, most of the respondents were of the opinion that good appraisal and restructuring of the needs of borrowers and bankers may lead to better performance loans. On whether microfinance banks should adopt cost-effective means of monitoring loan utilization and performances, responses were statistically significant with mean score of 4.6848 and standard deviation of 0.67637. On the average, most of the respondents were of the opinion that MFBs should adopt cost-effective means of monitoring loan utilization and performances.

Similarly, the respondents' view on if loans officers should ensure that credit facilities are not disbursed without putting proper documentation in place, or perfecting legal charge over collateral security it was statistically significant with mean score of 4.8804 and standard deviation of .35735. On the average, most of the respondents were of the opinion that loans officers should ensure that credit facilities are not disbursed without putting proper documentation in place, or perfecting legal charge over collateral security. Also, the respondents' view on if analysis of cash-flow projections for loan repayment should continue to be emphasized in self-liquidating and asset-based transactions, results obtained were statistically significant with mean score of 4.8152 and standard deviation of .44179. On the average, most of the respondents were of the opinion that analysis of cash-flow projections for loan repayment should continue to be emphasized.

CONCLUSION

The study concludes as follows that:

1) Effective credit risk management practice can enhance the loan performance of micro finance banks.

2) Effective and efficient credit risk evaluation can significantly boost loan performance of microfinance banks.

3) Implementing a structured credit policy largely determines the extent to which micro finance institutions can achieve an appreciable level of loan performance.

Recommendations

The study therefore recommends that:

1) Micro finance institutions should lay more emphasis and allocate more resources to credit risk evaluation activities in order to reduce risk on loans and achieve maximum loan performance.

2) Micro finance banks should encourage their credit officers in formulating and articulating credit policy considering their salient roles regarding the credit identification stage.

3) The Board and management of microfinance banks in Nigeria should ensure that the

implementation of the appraisal process is strictly adhered to without any compromise.

4) Management of the micro finance banks should lay emphasis on training of staff involved in the loan appraisal process.

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